



# County of Los Angeles

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January 10, 2007

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From: David E. Janssen  
Chief Administrative Officer

### SACRAMENTO UPDATE - GOVERNOR'S PROPOSED FY 2007-08 BUDGET

#### **BUDGET OVERVIEW**

The impact of the Governor's Proposed Budget on the County appears to be limited to a small number of County programs based on our preliminary review. While the Budget proposes significant Statewide reductions in CalWORKs (\$465 million) and Proposition 36 (\$25 million), elimination of the Integrated Services for Homeless Adults with Serious Mental Illness Program (\$55 million), and transfer of non-violent juvenile offenders and non-violent felons to county facilities, the majority of County programs do not seem to be impacted. We are working with the departments to estimate the impact of these items.

#### **FISCAL OUTLOOK**

After calling for another major expansion in public works spending, growth in alternative fuels and reform of the health care system in Tuesday's State of the State address, Governor Schwarzenegger unveiled his Proposed Budget for FY 2007-08. The Budget assumes \$101.3 billion in General Fund revenues and \$103.1 billion in expenditures, a shortfall of \$1.8 billion. This Budget gap is closed through the use of current year reserves, leaving an estimated \$2.1 billion year end reserve in FY 2007-08. The Proposed Budget reflects available resources of \$1.2 billion more than was estimated by the Legislative Analyst's Office (LAO) in November 2006.

The Proposed Budget General Fund expenditures of \$103.1 billion represent less than a 1.0 percent increase over expenditures in the current year. This compares to an estimated 7.2 percent growth in available General Fund revenues for FY 2007-08. The major components of General Fund revenue are personal income taxes and sales and use taxes which are expected to increase in the budget year by 6.8 percent and 5.7 percent, respectively. The increase in the rate of expenditures is less than the rate of increase in revenues under the Administration's plan. This situation is the result of the expenditure of substantial prior year carryover amounts.

Last year, the Administration acknowledged an estimated \$4 billion funding gap between revenues and expenditures as part of an ongoing structural imbalance. In November, the LAO identified an ongoing shortfall of \$5.5 billion that would be gradually reduced by future increases in revenue. The Governor's proposal, like his previous budgets, has no tax increases to address the budget deficit, and according to the Administration, the FY 2007-08 Budget eliminates the ongoing structural deficit. This is primarily accomplished through the transfer of certain General Fund expenditures to transportation accounts, future Indian gaming revenue, and reductions to the CalWORKs Program.

### **STRATEGIC GROWTH PLAN**

As part of the Strategic Growth Plan (SGP), the Governor proposes the issuance of an additional \$43.3 billion in new general obligation, lease revenue, and self-liquidating bonds to supplement the \$42.7 billion approved by the voters in November of last year. Combined, it represents less than half of the \$222 billion in bonds under the Strategic Growth Plan for infrastructure improvement introduced as part of the FY 2006-07 Budget Proposal. The new bonds, along with policy proposals and existing resources, will be used to finance the following components through 2016:

- \$ 9.5 billion for State and local correctional facilities
- \$11.6 billion for K-12 education facilities
- \$11.6 billion for Higher Education facilities
- \$ 6.0 billion for water supply and management
- \$ 2.0 billion for the State's judiciary facilities
- \$ 2.6 billion for other public service infrastructure

The new bond package would support the construction of increased correctional detention facility capacity (up to 78,000 additional beds), schools (15,000 new and 40,000 rehabilitated classrooms in addition to those funded by Proposition 1D approved by the voters in November 2006) and water storage capacity (two additional dams).

## ***BUDGET HIGHLIGHTS***

Based on a preliminary analysis of the Governor's Proposed Budget, the following is a summary of County-interest proposals:

### **General Government**

**Mandates.** Proposes \$52 million to reimburse counties for mandated AB 3632 mental health services. The 2006 Budget Act provided about one-half of the estimated costs for the AB 3632 Program in the current year, and these additional funds will fully fund the anticipated costs in FY 2006-07.

**Mandate Reform.** Proposes changes that will significantly impact the current mandate process. The Administration is proposing a process under which the Department of Finance will work with local agencies to develop a cost-efficient method of compliance with new laws and a relatively simple way to determine the amounts to be reimbursed to local governments.

**Elections.** Includes \$10.4 million in Federal funds to continue the implementation of the Help America Vote Act (HAVA). Of this amount, \$6.5 million is to implement the federally required VoteCal system, which replaces the existing voter registration database. The remainder is for HAVA activities, including \$1.1 million in new funds to be allocated to counties on a competitive basis for assistance to individuals with disabilities; \$500,000 for voter education; \$462,000 to comply with changing standards; \$180,000 for interim technology solutions; and \$1.7 million for HAVA administration.

**Property Tax Administration Grant Program (PTAP).** Does not restore funding for county property tax administration. For the 10 fiscal years ending in 2004-05, the State appropriated roughly \$55 million annually to counties under PTAP. The County's annual share of that program was approximately \$13.5 million.

**California State Library.** Proposes a shift of \$52,000 from the Public Library Foundation Program in order to fund the initial stage of the Integrated Library System Replacement Project, with status quo funding levels for the English Acquisition and Literacy Program.

**Food and Agriculture.** Includes \$294.5 million, which reflects a decrease of \$33.2 million below the 2006 Budget Act. However, it provides \$1.5 million General Fund to leverage local and Federal funds for activities to control the spread and impact of invasive weeds and provides \$3 million General Fund for County Agricultural Commissioners for activities to detect and exclude new pests and diseases from California's agriculture and natural environment.

## **Health**

**Health Care Workforce Development Program.** Proposes the final \$5.7 million installment of State funds to the County to complete the State's training commitment for healthcare employees. This commitment was made in 2000 as part of the County's Section 1115 Medicaid waiver.

**Nursing Initiative.** Provides \$757,000 in FY 2007-08 to restore nursing funding for expansion of entry-level master's nursing programs at the University of California. It also provides \$9 million in ongoing funding in FY 2007-08 and \$9 million in one-time current year funding to support additional nursing instructional capacity in community colleges.

**Medi-Cal.** Expenditures are estimated to be \$37.4 billion in FY 2007-08, which is a net increase of \$2.3 billion from the Budget Act of 2006. The increase is primarily due to caseload growth and the cost per eligible person.

**Medi-Cal Managed Care.** Includes \$6.2 billion in FY 2007-08 for the 3.3 million enrollees.

**Enrolling Eligible Children in Health Coverage Programs.** Proposes \$35.9 million to implement SB 437 (Chapter 328 of 2006), which is a pilot program in two counties to streamline enrollment of children who are eligible for Medi-Cal or the Healthy Families Program.

**Healthy Families Program.** Expenditures are expected to grow from \$1.0 billion in FY 2006-07 to \$1.1 billion in FY 2007-08. The increase is due to a projected enrollment of 915,600 in FY 2007-08, up from 841,700 in FY 2006-07.

**Proposition 36.** Reduces funding by \$60 million in FY 2007-08 for Proposition 36, the Substance Abuse and Crime Prevention Act of 2000. The Administration's proposed reduction is in response to Proposition 36 reforms which have been suspended by judicial injunction. The Budget proposes to use this funding reduction to provide an increase of \$35 million to the Substance Abuse Offender Treatment Program (OTP), which contains some of the reforms of interest to the Administration, and to provide savings of \$25 million on a one-time basis. If the court-challenged reforms to Proposition 36 are not implemented, the Administration proposes moving all remaining Proposition 36 funding to the OTP, which requires a 10 percent county match.

**Human Papillomavirus Vaccinations (HPV).** Includes \$11.3 million (\$5.6 million General Fund) in FY 2007-08 to provide HPV vaccinations to approximately 52,000 Medi-Cal eligible women ages 19 through 26 to reduce the risk of cervical cancer.

**Newborn Hearing Screening Program.** Includes \$1.5 million General Fund to expand the Newborn Hearing Screening Program to all California hospitals with licensed perinatal services.

**Trauma Care.** The Budget does not address funding for trauma care services.

**Governor's Health Care Proposal.** The Budget does not address the Governor's Health Care Proposal, which recommends a redirection of \$2.0 billion from counties. The impact of this funding scheme on the County is unclear as the plan does not specify the source of the \$2.0 billion redirection other than a reference to health care safety net, realignment, and other funding sources. Notwithstanding this reduction, it is clear that counties are expected to retain the Section 17000 obligation to provide health care to those who otherwise lack access to treatment.

### **Public Health**

**Licensing and Certification.** Includes \$84.2 million, a \$19.3 million increase over the Budget Act of 2006, to ensure high quality medical care in community settings and facilities by enforcing State licensing and Federal certification requirements.

**HIV/AIDS Treatment and Prevention.** Includes \$299.4 million for the AIDS Drug Assistance Program which provides life-saving medications to low-income persons living with HIV/AIDS.

**Foodborne Illnesses.** Provides \$2.1 million General Fund to enhance the State's response capabilities to foodborne illnesses.

**HIV Name-based Reporting.** Includes \$2.0 million General Fund to provide additional local assistance funding to increase surveillance staff for HIV reporting activities, as required by County-sponsored SB 699 (Chapter 20 of 2006).

**Hospital Infectious Disease Control Program.** Provides \$1.6 million General Fund, and \$0.4 million from the Licensing and Certification Program Fund, to implement this program, as required by County-supported SB 739 (Chapter 526 of 2006).

### **Mental Health**

**Proposition 63.** Projects an increase over previous estimates by \$312.1 million in FY 2006-07 and \$495.7 million in FY 2007-08, for a total estimate of \$1.6 billion in FY 2006-07, and \$1.8 billion in FY 2007-08. These funds are continuously appropriated to the State Department of Mental Health for county

implementation. According to the Department of Mental Health, approximately \$51 million in FY 2006-07 and \$81 million in FY 2007-08 may be available for Los Angeles County.

**Early and Periodic Screening, Diagnosis and Treatment Program.** Includes an increase of \$92.7 million General Fund and \$95.1 million Federal reimbursement authority above the Budget Act of 2006. The increase is attributable to additional costs and the volume of unpaid county claims.

**Integrated Services for Homeless Adults with Serious Mental Illness.** Proposes the elimination of this \$54.9 million program, which provides funding to local mental health agencies to act as the single point of responsibility for comprehensive services for individuals who are homeless or at risk of homelessness or incarceration and have a serious mental illness. The Budget proposal indicates that similar services are available to individuals under Proposition 63, which the County strongly opposes because language in the initiative contains an anti-supplantation clause, and the expenditure of funds allocated to counties is decided through the local community stakeholders' process.

### **Social Services**

**CalWORKs Services.** Proposes \$463.4 million for CalWORKs administration, an increase of \$8.3 million above the FY 2006-07 appropriation.

**CalWORKs Improvement.** Maintains \$90 million to counties to enhance efforts to increase work participation rates.

**CalWORKs Reforms.** Proposes reforms to the CalWORKs program for an estimated savings of \$324.4 million, which includes:

- Full family sanctions for CalWORKs families when the adult does not comply with work requirements beyond 90 days.
- Elimination of CalWORKs payments after the 60-month time limit for children when the able-bodied adult fails to meet the Federal work participation requirements.
- Limiting of child-only benefits to 60 months when the parent or caretaker is an undocumented non-citizen, a convicted drug felon or a fleeing felon.
- Changing the CalWORKs and Food Stamp reporting requirement from quarterly to semi-annual effective January 1, 2009.

**CalWORKs Pay for Performance Allocation.** Includes \$40 million for incentive payments to counties which would be allocated based on measured outcomes in work participation and employment rates achieved in FY 2006-07.

**CalWORKs Child Care.** Proposes \$530.8 million for Stage 1 Child Care and \$471.2 million for Stage 2 with 5.0 percent of this total (\$50.1 million) held in reserve.

**CalWORKs Cost of Living Adjustment (COLA).** Withholds the 4.21 percent July 2007 COLA for a savings of \$140.3 million.

**Statewide Fingerprint Imaging System (SFIS).** Proposes \$7.97 million to maintain SFIS.

**Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) System.** Proposes \$12.6 million to reflect increased contract costs and \$2.0 million for the LEADER replacement system in the social services budget.

**In-Home Supportive Services.** Proposes General Fund spending of \$1.5 billion in FY 2007-08, an increase of 5.4 percent over FY 2006-07 due to increased caseloads. The State proposes to freeze its participation in IHSS wages and benefits at \$11.10 per hour.

**Supplemental Security Income/State Supplementary Payment (SSI/SSP) COLA.** Proposes \$216.7 million General Fund to provide the January 2008 COLA.

**Child Welfare.** Increases funding for Child Welfare Services by \$94.4 million for a total allocation of \$4.0 billion.

**Child Welfare Enhancements.** Maintains \$255 million allocated in FY 2006-07 to improve outcomes for children in foster care and proposes an additional \$5.4 million for children placed in out-of-home care by county probation departments and to identify mental health and developmental needs of children in foster care, and to monitor program performance.

**Child Support Services.** Proposes \$194.9 million General Fund for local agency administrative costs, approximately the same level of funding provided in FY 2006-07.

**Back-fill of Federal Incentive Payments.** Proposes \$23 million General Fund to maintain funding for local child support agencies due to provisions in the

Federal Deficit Reduction Act which prohibit the State from claiming Federal matching funds using earned Federal incentive payments.

### **Justice and Public Safety**

**Jail Construction.** The SGP will provide \$4.4 billion in bond funding to local governments for the construction of jail facilities, which will require a 25 percent local match. Availability of these funds is subject to voter approval.

**Incarceration of Non-Violent Felons.** Beginning July 1, 2008, non-serious, non-violent felons with terms of three years or less will serve their sentences in county jails. The Proposed Budget does not provide operational funding for this population. The State has indicated that it will work with local governments to address these costs.

**Courts.** The SGP proposes \$2.0 billion in general obligation bonds to renovate or replace outdated, unsafe, court buildings to increase public safety. Availability of these funds is subject to voter approval.

**Mentally Ill Offender Crime Reduction Grants (MIOCR).** Provides \$45 million in FY 2007-08 for MIOCR Grants, with half for juveniles and half for adult inmates.

**New Judgeships.** Includes an augmentation of \$27.8 million General Fund in FY 2007-08 and \$74.3 million General Fund in FY 2008-09 to add 100 new judgeships over a two-year period beginning in April 2008. The expenditure of these funds is restricted until legislation authorizing new judgeships is enacted.

**Safe at Home Program.** Provides \$292,000 to expand the Safe at Home Program which provides services to victims of domestic violence and stalking, and is now expanded to include victims of sexual assault.

**Proposition 83 (Jessica's Law).** Provides \$30.4 million in FY 2006-07 and \$77.3 million in FY 2007-08 to implement Proposition 83, known as Jessica's Law, and other recently enacted measures related to managing sex offenders, including funding for GPS monitoring.

**Adult Probation Funding.** Includes \$50 million in FY 2007-08 and \$100 million in FY 2008-09 for local adult probation funding targeting the at-risk 18 to 25 year-old probation population, which accounts for the largest percentage of new felon admissions to the State prison system. The program will be modeled after the Juvenile Justice Crime Prevention Act program. We anticipate that most of the funding for this program will be allocated on a population basis.



**Shift Juvenile Justice Population to Counties.** Starting July 1, 2007, the Division of Juvenile Justice will begin shifting non-violent juvenile offenders from State to local facilities, and in FY 2007-08 will provide \$53 million in block grant funding to counties to support the program and housing needs of this population. We estimate the average block grant to be approximately \$40,000 per offender. The State will also stop accepting female juvenile offenders. This will result in a savings to the State General Fund of \$32.9 million in FY 2007-08. An additional reduction of \$10 million will result from the elimination of funding for the Juvenile Justice Community Reentry Challenge Grant.

**Juvenile Camp Funding.** Provides \$246 million in FY 2007-08 for juvenile camps.

**Juvenile Justice Crime Prevention Act and Citizens' Option for Public Safety.** Provides full funding in FY 2007-08 at \$238 million.

**Local Juvenile Detention Facilities.** Provides \$400 million in FY 2007-08 for construction of local juvenile detention facilities with a required 25 percent local match.

### **Transportation**

**Proposition 42.** Proposes to fully fund the Proposition 42 valued at \$1.475 billion for FY 2007-08, of which \$699 million is allocated to the State Transportation Improvement Programs (STIP), and approximately \$117 million will be allocated to projects in the Los Angeles region.

Pursuant to current law, cities and counties are not scheduled to receive any local streets and roads maintenance funds from Proposition 42 in both FY 2006-07 and FY 2007-08, in lieu of the cities and counties receiving monies from the State Highway Account in FY 2001-02 and FY 2002-03 for local streets and roads maintenance.

The Budget also proposes the repayment of \$83 million in Proposition 42 monies, which is the minimum amount required under Proposition 1A. This amount will be distributed in the same manner as Proposition 42 monies, which do not include any funds to local agencies. The State still owes the County approximately \$2 million for repayment of previously borrowed Proposition 42 funds.

**Transportation Bond - Proposition 1B.** Proposes to allocate \$523 million in FY 2006-07 for high priority projects that are ready to start construction under various programs of Proposition 1B. Of this amount, \$262 million and \$5.0 million will be allocated for projects under the STIP and the Local Bridge

Seismic Retrofit Program, respectively. Local jurisdictions, including Los Angeles County, are recipients of these funds through competitive grants. The FY 2006-07 proposals will be introduced by the Legislature in separate legislation.

In addition, the Budget proposes to allocate \$2.8 billion for Proposition 1B programs in FY 2007-08. Of this amount, \$600 million is for the Local Streets and Roads Program under which the County would receive a direct allocation of \$58.2 million, and \$891 million will be allocated for other programs where local jurisdictions, including Los Angeles County, are eligible to receive these funds through competitive grants. However, these initial allocation amounts may be adjusted as expenditure guidelines under Proposition 1B are developed and projects are approved for funding.

**Tribal Gaming Proceeds.** There is still \$1.0 billion in outstanding transportation loans, including Proposition 42 monies due from the suspension back in FY 2003-04, which remains dependent upon the sale of tribal gaming bonds.

Several lawsuits have prevented the bonds from being sold, and the projected date that the tribal bond revenues will be available has changed numerous times. The proposed Budget now assumes spending the tribal compact cash as it is received until the date that the sale of bonds can be determined. The budget proposes to deposit \$100 million from each of FY 2006-07 and FY 2007-08 into the State Highway Account. Local jurisdictions, including Los Angeles County, are recipients of part of these funds through competitive grants.

The Budget also includes \$506 million in General Fund revenue from the approval of additional tribal gaming compacts.

**Public Transportation Account.** \$1.11 billion in transportation funds is to be transferred to finance costs that are normally financed by the General Fund. Of this amount, \$617 million would have been allocated to the STIP. The Los Angeles region would have received over \$54 million of these STIP funds.

**Rail Operations.** Proposes \$123 million to manage and coordinate intercity rail passenger services that provide commuters with a range of transportation options, help to improve the State's air quality, and reduce highway congestion and fuel consumption.

### **Housing**

**Housing Bond - Proposition 1C.** Proposes \$373 million in awards to the following program areas authorized by Proposition 1C: \$88 million for affordable homeownership programs; \$140 million to provide affordable rental housing;

\$40 million for farmworker housing; \$95 million for homeless permanent housing construction; and \$10 million for homeless shelter housing construction. Proposition 1C authorizes the State Department of Housing and Community Development to make these expenditures without additional legislative authorization.

In addition, the Budget proposes \$40 million for the Building Equity and Growth in Neighborhoods (BEGIN) Program, which provides grants to cities and counties to make deferred-payment second mortgage loans to qualified buyers of new homes, and \$95 million for the Transit-Oriented Development Program to develop and construct housing projects close to transit stations. Funding for both of these programs is required to be annually appropriated by the Legislature.

Furthermore, the Budget includes \$145 million in awards for three programs that Proposition 1C requires be further specified through the adoption of additional legislation: \$100 million for Infill Incentive Grants; \$15 million for affordable housing innovation programs that demonstrate cost-saving ways to create or preserve affordable housing; and \$30 million for the Housing and Urban-Suburban and Rural Parks Program to create incentives to increase housing production by rewarding local governments with grant funds to create or improve well designed parks. The Administration will propose budget trailer bills to implement these programs to provide incentives for the creation of more housing.

**Supportive Services.** Proposes to direct \$30 million of combined Proposition 46 (Housing and Emergency Shelter Trust Fund Act) and Proposition 63 funds to provide homes with supportive services for seriously mentally ill homeless individuals and their families.

### **Natural Resources and Environmental Protection**

**AB 32 – Global Warming Solutions Act.** Proposes \$35.8 million from various funds to implement the Act, which requires greenhouse gas emissions to be reduced to 1990 levels by 2020 and authorizes the development of a market-based compliance program.

Specific activities include: \$3.5 million to the Air Resources Board for collecting greenhouse gas emissions data in California; \$1.8 million to develop the Emission Reduction Scoping Plan; \$12 million to develop market-based mechanisms; \$7.1 million to identify and develop emission reduction measures; \$7.4 million for scientific and economic analysis to ensure that emission reductions are achieved in a cost-effective manner; and \$4.0 million for program oversight and coordination.

**Low-Emission School Buses.** Proposes \$96.5 million from Proposition 1B to replace 535 pre-1987 school buses and retrofit approximately 1,500 old diesel school buses.

**Hydrogen Highways.** Proposes \$6.0 million to the Air Resources Board to continue development of the Hydrogen Highway, which is part of the Governor's Hydrogen Highway Blueprint Plan that includes a goal of establishing 50 to 100 hydrogen fueling stations in California. These dollars will provide matching funds for up to eight publicly accessible hydrogen fueling stations and will prioritize funding for stations that generate hydrogen from promising renewable technologies, such as biomass, solar, and wind energy.

**Water Quality – Proposition 84.** Proposes a total of \$1.1 billion for Proposition 84, including \$111.4 million for the State Water Resources Control Board for water quality programs, \$75.7 million to provide low interest loans or grants for wastewater treatment facilities and pollution control projects; \$6.2 million for the Agricultural Water Quality Grant Program; \$14.6 million for the Urban Storm Water Grant Program; \$8.8 million for the Clean Beaches Grant Programs; and \$6.1 million for basin and land use planning activities.

**Brownfields.** Proposes \$3.1 million to accelerate the cleanup of approximately 750 additional brownfield sites.

**Ocean Protection.** Proposes to allocate \$28 million from Proposition 84 in FY 2007-08 to create marine protected areas, ensure sustainable fisheries, and regulate marine industries.

**Bioenergy.** Proposes \$5.1 million, principally from Proposition 84, to advance the Governor's bioenergy initiative, which is designed to increase the use and availability of renewable energy, reduce reliance on fossil fuels, mitigate the risk of catastrophic wildfire, and address some of the State's critical waste disposal and environmental problems.

We will continue to keep you advised.

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c: All Department Heads